

WORDS DES CAULFIELD



IS FARMING WORTH THE CHALLENGE?

Photograph by Tony Tervoert

The family farm has been an institution in Australia for well over 150 years. Farming is also a way of life. But a cursory review of financial returns from family farms often leads commentators to question the value of the investment in such an enterprise. And so the question should be asked: why be involved in the ownership of a family farm?

Profitability

Like any industry farming has its excellent performers and some not so good performers, but the average is not necessarily reflective of the investment returns that can be achieved.

Unlike many industries farming has a major uncontrollable element that can have enormous impacts on the final return. It is, of course, the weather. As so incisively observed by Dorothea Mackellar in her poem *My Country*, Australia is a land of drought and flooding rains. Is there an industry where so many of the participants seem so totally preoccupied by the weather? Possibly not, but conversely is there an industry where the weather can have such a significant impact on the final return?

The most profitable farmers are undoubtedly those who are able to mitigate the weather risk. This is achieved by a combination of sound financial management, marketing skills and innovative production management. They must be engaged with their advisers and their advisers must understand the unique nature of farming.

The modern day farmer faces substantially more challenges than past generations, but with these challenges also come opportunities not available to past generations.

Globalisation and reductions in tariffs with the resultant increases in competition has resulted in new challenges for those on the land. The ever increasing improvements in technology means that bigger and more expensive plant and equipment is now required in running the farm. To justify the return on the investment in the equipment the size of the farm has needed to increase, resulting in a steady consolidation of farm holdings. There are now fewer, but larger, family farms. As the capital going into equipment has increased so has the need for capital to be invested in increased land holdings. Business management skills are now more relevant than ever.

Cooperative marketing

To be economically viable grain needs to be sold in large consolidated volumes. When family farms were quite regularly less than 400 hectares in size it was just not possible for the farmer to directly market the grain produced, particularly as a very large part of the annual output was (and continues to be) exported. Even in today's world of much larger farms, the need for consolidated marketing remains.

Over the years governments and farmers developed grain marketing and grain collection and storage systems to collectively meet the need for coordinated grain marketing. The Australian Government established the Australian Wheat Board and Australian Barley Board to market the national crop on behalf of and for the benefit of the producers. Grain farmers were able to sell their produce into *pools* and the authorities managed the



marketing of the product as well as being responsible for price fluctuation and currency exchange risks.

Various cooperatives were established around the country to construct and manage grain collection and storage facilities. The producers funded these authorities and cooperatives by various levies. The sole objective was to maximise returns to the growers.

Deregulation

Then the economic rationalists came to the fore in the 1990s and deregulation became the *buzz* word. Many of the cooperatives disappeared; the Australian Wheat Board and the Australian Barley Board were privatised and eventually listed on the Australian Stock Exchange.

The whole scene changed from that of cooperatives and government authorities having the sole objective of maximising profits for the producers to one of public companies needing to satisfy the investment return expectations of their shareholders, many of whom were not producers. The inevitable result was in reduced returns to producers. Of course the new system did release to the farmers the capital previously invested in the two marketing authorities and the various cooperatives.

Almost two decades into the new age there is little evidence to suggest that the rationalisation has improved the lot of many producers. It has however provided new opportunities not previously available. Today's grain farmer is able to choose from many selling alternatives. The traditional pools are still available but the producer is now able, if so desired, to have control over timing of sales as well as utilising opportunities to forward sell at fixed prices.

The role of the farmer has expanded from mere producer to now include marketing, price hedging and currency hedging. Yes, this

has increased the risks but it has also substantially improved the opportunities for maximising profits that were not possible in the past.

The modern farmer

The successful farm is now a well oiled, all round manufacturing business. The required skill set has expanded and the need for specialist consultants in all aspects of business has grown. More than ever the grain farmer needs specialist advice from the bankers, the agronomists and the accountants.

Planning still includes the traditional rotation of crops as well as the budgets for the bankers. But it now goes much further. The budget is not for exclusively the banker, but rather is an essential management tool. In some aspects today's farmer is not unlike the punters on Wall Street. A typical day may well start with logging on to read the latest numbers on wheat futures and currency exchange rates in addition to the compulsory weather forecast.

Discussions around the kitchen table are no longer restricted to the weather or when the next pool advance might be paid. The success or otherwise of the Ukrainian wheat crop or the Canadian barley crop are just as likely to be a topic of conversation. There is regular passionate discussion at the bar of the local pub about the December 2011 price for wheat or the exchange rate of the Aussie dollar. As Bob Dylan sang many years ago "the times they are a changing"!

Grain farming will always be a way of life. Of that you can be sure. But it also provides an exciting and interesting challenge and enables participants to experience considerably more job satisfaction than may have been the case when regulation was king.

Is it worth the challenge? Absolutely. ●

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